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INVESTIGATING VENDORS' DECISION TO TERMINATE IT OUTSOURCING CONTRACTS

Completed Research Paper

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Abstract

Despite the prevalence of IT outsourcing, a substantial amount of contracts have been terminated. Prior research has primarily assumed that clients initiate it, overlooking the possibility of vendors doing so. Unlike clients whose reasons may stem from poor performance or other alternatives, vendors would be triggered by very different reasons. They are less likely to admit their own poor performance or forgo contracts due to competitors. Integrating various theories, we propose antecedents reflecting three critical dimensions: strategic, economic and relational. Empirically verifying our model, we conducted a field survey, eliciting 91 responses from vendors. Results indicate that strategically, low reusability, negative referencing power, and low resource dependence will trigger vendors' intention to terminate contracts. Economically, low penalty and late payment will also influence termination decision. Relationally, we observe two unexpected findings. Vendors are less likely to terminate an unequal contract or clients with negative social relationship.

Keywords: IT Outsourcing, Contract Termination, Vendors' Perspective

Motivation

According to the survey by Lacity and Willcocks (2000), about 34% of IT outsourcing contracts has been terminated. Given that the market for IT outsourcing is projected to hit \$253 billion in 2010 (Caldwell & Young, 2004), termination could result in the potential loss of billions of dollars. With the current economic downturn, organizations are compelled into a re-evaluation and rationalization of their IT outsourcing contracts.

Prior research has implicitly assumed that it is always clients who initiate termination, such as the landmark break between JPMorgan and IBM (Cowley 2004). Consequently, the possibility of vendors doing so has been conveniently overlooked. Although counterintuitive, vendors do exercise their rights to terminate contracts. For example, in 2004, EDS chose to repay its client \$135 million in order to exit from its IT outsourcing deal, after losing about \$57 million and forecasting more loss in the future (SharedXpertise 2004). Hence, the assumption that vendors would hold on fervently to IT outsourcing contracts and commit unconditionally until expiration (or even indefinitely for evergreen IT outsourcing contracts) has been challenged.

The exclusive emphasis on clients has helped identify some antecedents triggering contract termination, such as poor performance, alternative vendors, destruction to core competence, etc. (see McLaughlin and Peppard 2006; Whitten and Leidner 2006). However, these antecedents are neither predictive nor meaningful from vendors' perspective. Vendors are less likely to admit their own poor performance or forgo their contracts due to competitors. Given the differences in mindsets, expectations and underlying goals between clients and vendors (Lacity and Hirschheim 1993), it is pertinent to unravel antecedents that will induce vendors' intention to initiate contract termination.

Additionally, we also wish to dispel the misconception that vendors are solely to blame when IT outsourcing culminates in termination. Without adopting a different perspective, it may appear that vendors are the only party which is opportunistic because the project is in their hands (see Agency Theory (Eisenhardt 1989)). Indeed, extant studies have provided some anecdotes and evidences of vendors who deliver low quality solutions or provide poor customer support (Chalos and Sung 1998), resulting in contract termination. However, the picture is not complete. Clients may exhibit opportunistic behavior too (Miranda and Kim 2006). They can also exploit vendors through unfair contracts (Lee et al. 2003) or disregard their fair share of obligations, such as "prompt payment", and "dedicated project staffing" (Koh et al. 2004). Consequently, the IT outsourcing relationship is in strain and jeopardy. Once again, this accentuates the importance and value of investigating termination through a different perspective – the vendors' perspective.

Moreover, there is a tendency to equate "Project Success" with "Project Continuation". Studies on IT outsourcing success (e.g., Koh et al. 2004; Gottchalk and Solli-Sather 2005) tend to impress upon us that a successful project will result in the renewal of IT outsourcing contracts. While this is likely true from clients' perspective (Aubert et al. 1998), it may not necessarily be so from vendors'. Lacity and Hirschheim (1993) cautioned that vendors still might terminate IT outsourcing contracts due to various reasons, such as a shift in strategy or to deflect resources. Apparently, success may not necessarily ensure its continuation, unless there is reconciliation with vendors' strategies and interests. The vital but omitted role that vendors play in contract termination deserves further scrutiny. Hence, our research question is

What are the antecedents predicting vendors' intention to terminate IT outsourcing contracts?

Literature Review

Outsourcing Success versus Termination

The research on IT outsourcing has evolved over time, from the initial investigations on motivation (e.g., Teng et al. 1995) and make-or-buy decision (e.g., Ang and Straub 1998; Gilley and Abdul 2000), to the subsequent studies on outsourcing scope (e.g., McLellan and Marcolin 1995) and success (e.g., Gottschalk and Solli-Sather 2005; Lee and Kim 1999), to the recent interests in contractual complexity (e.g., Argyres et al. 2007) and contract termination (e.g., Chalos and Sung 1998; Whitten and Leidner 2006).

Underlining all these research works is the quest for success in IT outsourcing. For clients, it not only helps them achieve IT operation cost savings, but also reaps the benefits from specialization, flexibility, and market competition (Seddon et al. 2008). For vendors, success in delivery can help establish market reputation, apart from the amount stipulated in the deal. Although there have been some successful stories, the potential for failure continues to besiege clients and vendors. Indeed, Lacity and Willcocks (1998) report that the success rate of IT outsourcing is about 56%. In concurrence, Boonlert (2005) highlights that IT outsourcing does not always lead to cost savings or competitive advantages, with the chances of success being 50:50.

Consequently, this fuels much investigation in the antecedents governing IT outsourcing success. For example, Saunders et al. (1997) propose a framework to suggest the constellation of several factors (such as the perception of partnership with vendor, the nature of the contract, and the role of the IT function) to ensure the success of IT outsourcing. Other research has also explored determinants of IT outsourcing success from aspects of organizational capabilities and interaction processes (e.g., Han et al. 2008; Lee 2001), as well as clients' stakeholder management and core competence management (e.g., Gottschalk and Solli-Sather 2005). Recent studies have also investigated the effect of quality and change management (Chou 2007) as well as contractual control (Argyres et al. 2007) in ensuring IT outsourcing success.

From clients' perspective, success is often equated with contract continuance (as opposed to termination). Researchers have underscored the nightmarish impacts and repercussions of contract termination, such as disruption to internal operations and huge economic loss (see Barthelemy 2003; Lacity and Willcocks 2000). Upon contract termination, clients can only opt for a switch in vendors or back sourcing (see McLaughlin and Peppard 2006; Whitten and Wakefield 2006). Both these options are, however, plagued with difficulty. Unless compelled, clients would not want to land themselves in this dire predicament.

Amongst the few who have investigated contract termination, they fundamentally focus on clients' perspective. Low service quality has been typically singled out as a catalyst toward contract termination (Zeithaml et al. 1988). It tempts clients to consider switching to vendors who possess the ability to offer a better service, if not a lower price (Wagner and Friedl 2007). Concurring, Whitten and Leidner (2006) incorporate prior studies and empirically establish that low product quality or service quality, as well as low relationship quality and switching cost can trigger clients to terminate ongoing IT outsourcing projects. In addition, Veltri et al. (2006) caution that contract problems, internal organizational changes and external environmental changes also could induce clients to terminate contracts.

Unfortunately, the discourse on contract termination from clients' perspective may not always apply to vendors' perspective. Recent studies (e.g., Koh et al. 2004) have separated psychological obligations of vendors from those of clients and argue that clients sometimes fail to fulfill their fair share of obligations too. For example, by not dedicating project staff or not sharing knowledge, clients can jeopardize the IT outsourcing relationship. Also, vendors cherish prompt payment (Kern and Willcocks 2002) and reusability of their resources (Hamel 1996). In essence, vendors are more committed to relationships which they depend on for resources, business knowledge and market reputation (Swinarski et al. 2003). Inspired by theoretical assertions and empirical studies from vendors' perspective, it is rational to assume that vendors may terminate contracts for various reasons that are distinct from clients.

Strategic, Economic and Relational Dimensions

Several theories have been employed to better understand IT outsourcing, such as Resource Based Theory (e.g., Levina and Ross 2003), Resource Dependency Theory (e.g., Grover et al. 1996), Power Political Theory (e.g., Allen et al. 2002), Transaction Cost Economics (e.g., Ang and Straub 1998), Agency Theory (e.g., Bahli and Rivard 2003), Social Exchange Theory (e.g., Lee and Kim 1999) and Equity Theory (e.g., Outlay 2007). Synthesizing these theoretical lenses, we emerge with three dimensions (strategic, economic and relational) that may help explain vendors' contract termination decisions.

The strategic dimension is concerned with how organizations formulate and implement strategies to accomplish a desired performance goal (Schendel and Hofer 1979). For example, Roy and Aubert (2002) draw from Resource Based Theory to present a theoretical framework for domestic sourcing, including four strategies: outsourcing, internal governance, partnership and recuperation. Resource Based Theory posits that competitive advantage is rooted in resources that are valuable, rare, inimitable, and non-substitutable (Barney 1991). In other words, organizations would keep strategic IT functions in-house and outsource those which cannot grant them competitive

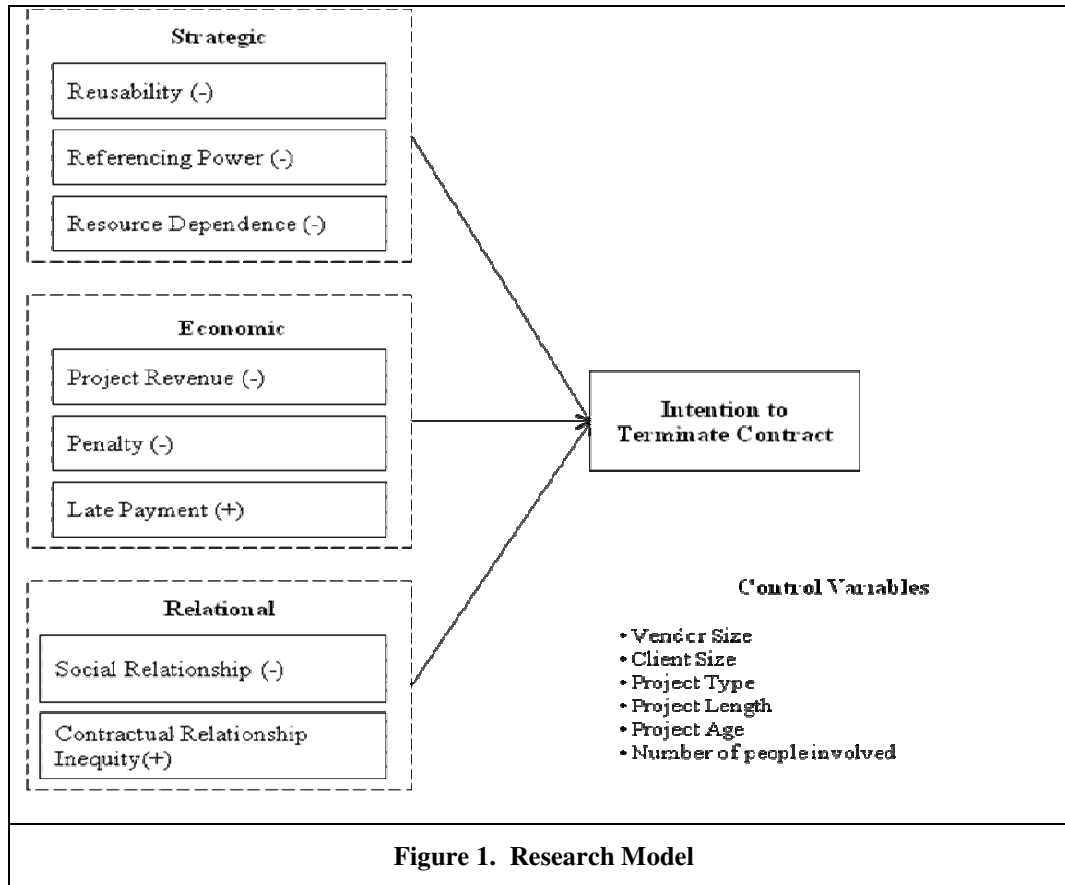
advantage (Alvarez-Suescun 2007). Otherwise, upon IT outsourcing, clients are dependent on vendors for their deliverables (Teng et al. 1995). Resource Dependence Theory purports that all organizations are dependent, to varying degrees, on some elements in their environments (Aldrich 1976). This dependence stems from controls over needed resources, discretion over usage of needed resources, and dearth of alternative sources (Kotter 1990; Pfeffer and Salancik 1978). Similarly, as espoused by Power-Political Theory, power is derived from offering valuable resources that few other sources can provide (Emerson 1962). The dependence of organizations on another is a function of the goals mediated by the latter, the motivational investment of the former, the availability of alternatives, and the negative impact upon discontinuance of the relationship (El-Ansary 1975). In a nutshell, there is dependence on another if survivability can be threatened.

The economic dimension is most often used to elucidate the widespread phenomena of IT outsourcing (e.g., Ang and Straub 1998; Chalos and Sung 1998). When clients seek cheaper development channels in countries like India and China, the tenets underlying Transaction Cost Economics (Williamson 1985) and Agency Theory (Eisenhardt 1989) are most appropriately applied. Transaction cost typically refers to the constellation of searching cost, negotiation cost, policing and enforcement cost. Through the weighing of these costs against the potential benefits, clients can better decide on “make or buy” as well as “single or multiple” vendors (e.g., Aubert et al. 1996; Nywenyama and Bryson 1999). In essence, clients should outsource when internal production presents comparative cost disadvantages, but should exit when transaction cost exceeds production saving (Falaleeva and Saunders 2006). Adding to the calculus of exit, however, is yet another transaction cost – the switching cost, which should be taken into consideration when clients decide to discontinue the current relationship (Barthelemy 2001).

Even though the economics may not be promising at times, Dibbern et al. (2004) purport that a close relationship may help organizations tide over financial difficulties. This underscores the importance of the relational dimension, as expounded by numerous theories, such as Social Exchange Theory (Homans 1958) and Equity Theory (Adams 1963, 1965). Relationship is cultivated by a shared business understanding, trust, quality communication, joint action, and commitment between clients and vendors (Lee and Kim 1999). By promoting cooperation and helping to resolve conflicts, a good relationship is critical for a long term contract continuance (Grover et al. 1996). Arguably, organizations are unlikely to ignore equity concerns. Based on Equity Theory, there are three kinds, namely reciprocal equity, procedural equity and distributive equity (Joshi 1989). Reciprocal equity refers to the impartialness in responding generously to cooperative acts and punishing uncooperative ones (Falk and Fischbacher 2006). According to Molm et al. (2003), those who consistently reciprocate others’ giving are perceived as fair. Procedural equity refers to the introduction of processes that facilitate the smooth running of IT outsourced activities and in times of disputes and disagreements, make available a channel for redress and an opportunity to be heard (Molm et al. 1993). Previous studies have found that organizations which demonstrate procedural fairness engender greater trust and expectation of continuity (Anderson and Weitz 1992). Distributive equity is more concerned with the fairness in allocation during the exchange (Leventhal 1976). In IT outsourcing, the fairness in allocation is a sign that both parties are serious about achieving success. In sum, inequity in contracts can trigger organizations to reestablish the equity, through renegotiating (Kabanoff 1991) or resistance and retaliation (Lawler 1975).

As IT outsourcing continues to burgeon, not only are clients capable of contract termination, but also vendors. We, hence, see value in applying multiple theoretical lenses to identify antecedents predicting vendors’ contract termination. We hope the integration of Strategic-Economic-Relational dimensions will be elucidative.

Research Model and Hypotheses



Strategic

Reusability

From vendors' perspective, the reusability of IT artifacts refers to their ability to adopt existing ones for subsequent usage instead of building them from scratch again. The types of IT artifacts that can be reused are not only limited to software source codes, but also the design structures, specifications and documentations (Prieto-Diaz 1993). It is only strategically wise if vendors could replicate their solutions easily from one project to another, thereby saving substantial amount of effort and resources (Ang and Straub 1998; Loh and Venkatraman 1992a; Slaughter and Ang 1996). On the other hand, if the deliverables and assets of a project are too specialized and customized, the reusability is drastically reduced (White and Levine 1961). Reusability, therefore, makes it justifiable to venture into the respective projects that usually entail expensive personnel training, methodological development and even customer relationship management (Levina and Ross 2003). All these point to a negative relationship between reusability and vendors' decision to terminate contracts.

In addition, reusability serves as a means to compensate loss, if any at all (Gilbert and Ricadela 2001). In other words, when vendors can easily tap on existing expertise for subsequent IT outsourcing bids or when software developers can quickly find large fragments of reusable and high quality source codes, they are less likely to consider terminating the project even if potential loss looms large (say, due to fixed price contract). With the consolation that reusability is high, vendors would choose contract continuance. In sum, vendors would strategically opt to terminate projects with low reusability and pursue those with high reusability. Hence, we hypothesize

H1: Reusability is negatively associated with vendors' terminating intention

Referencing Power

Referencing power reflects the ability of clients to positively promote or negatively tarnish vendors' reputation. Its importance can be underscored when most Request for Proposal make it integral to highlight referrals. In order to survive and proliferate in the IT outsourcing industry, vendors often strategize over which clients to partner with and which projects to embark on, so as to catapult them to greater heights. Expectedly, vendors would seek reputable clients or high profile projects when possible. When clients possess positive referencing power, vendors are less inclined to initiate contract termination (regardless of their experience) because of the promise of a raise in market reputation and hopefully, market share. Even if it spells some sacrifices and loss (Natovich 2003), vendors would be reluctant to break up the relationship.

Conversely, vendors would not hesitate to exit from a relationship with clients who frequently complain about their services in the market. Presumably, when clients have negative experience with vendors, they would tend to exaggerate their dissatisfaction, which can severely damage and deprecate vendors' reputation (Reichheld and Teal 1996). Assessing difficulty in pleasing these unsatisfied clients (Dowling and Mark 1997), it would be strategically wise for vendors to let go and guide clients to alternative vendors (Reichheld 2006). In essence, positive referencing power confers clients with strategic importance. Hence, we posit

H2: Referencing power is negatively associated with vendors' terminating intention

Resource Dependence

According to Resource Dependence Theory, the demand for resources, regardless of physical or informational resources, from the environment, renders organizations potentially dependent on external sources (Pfeffer and Salancik 1978). An emergent market practice is to pay more attention to relationships that offer more resources (Raaija and Van 2003). In IT outsourcing, vendors might be highly dependent on clients for physical resources as well as informational resources. The former includes infrastructure, plants, equipments, etc. whereas the latter includes business processes, values, etc. High resource dependence would suggest that vendors are inclined to stay contracted in order to secure a convenient and lasting usage of these resources.

Noteworthy, the notion of information resources has become increasingly salient (King and Grover 1991), as they add to organizational knowledge and position vendors in a more strategic advantage than their competitors (Johnston and Carrico 1988). Arguably, the value of information resources (Koh et al. 2004) would cause vendors to better appreciate their current relationship with clients. In short, vendors' high dependence on physical and information resources can help preserve relationship with clients. So, we conjecture

H3: Resource dependence is negatively associated with vendors' termination intention

Economic

Project Revenue and Penalty

Project revenue can be regarded as a proxy of profit (Raaija and Van 2003). It would be lost in terms of opportunity cost if IT outsourcing is terminated. Opportunity cost is defined as the value of the next best alternative foregone as the result of making a decision. It is important in understanding organizational decision-making (McConnell 2005). When project revenue is high, vendors would be enticed to sustain the relationship. Otherwise, they would be forsaking a lucrative amount of money. However, when project revenue is low, vendors might be less apprehensive about abandoning it.

Not only would vendors lose out on the project revenue, but also they would incur a penalty for initiating contract termination. As a mutual agreement, IT outsourcing contracts usually stipulate penalty clauses explicitly to safeguard either party (Bo 1989). Presumably, a contract with huge penalty makes vendors hesitant to relinquish the project (Turnbull et al. 1996). Conversely, when the penalty is negligible, vendors might not have second thoughts about ending it. In sum, high project revenue and high penalty signal a huge amount forsaken upon termination. Hence, we predict a negative relation for both.

H4: Project revenue is negatively associated with vendors' termination intention

H5: Penalty is negatively associated with vendors' termination intention

Late Payment

Typically in IT outsourcing, clients prefer to break the project into different phases (for management and monitoring purposes) and settle payment at the end of each phase. Prompt payment refers to the timely processing of payment by clients. They should not be withholding payment unreasonably (Jane 2002). Accentuating its importance, Koh et al. (2004) endorse prompt payment as one of the six prominent obligations that vendors expect clients to fulfill. Indeed, vendors are highly concerned over late payment (Kern and Willcocks 2002), and perturbed by clients who deliberately do so, giving excuses of all sorts. At times, clients are not contented with vendors' services and refuse to sign-off the project deliverables, in an attempt to hold vendors hostage and bargain for more. At other times, late payment might be unintentional. The project sign-off misses the budget cycle and clients would have to delay payment.

When late payment is frequent, vendors can run into serious financial and operational crises due to their heavy initial investments and the belated financial support (Bin et al. 2008). This will immensely jeopardize vendors' business and trigger their intention to terminate contracts. Conversely, when late payment hardly occurs, vendors are blessed with a continuous supply of funding and capital turnover to run their business (Kern and Willcocks 2002), resulting in stable performance and service quality. Consequently, vendors would be more eager to sustain the relationship. Thus, we postulate that

H6: Late payment is positively associated with vendors' termination intention

Relational

Social Relationship

Conflicts are inevitable in any relationship. However, excessive conflicts could culminate in the termination of relationship. Fortunately, there are ways to help mitigate, if not eliminate, conflicts. In IT outsourcing, conflicts could be reduced as social exchanges become institutionalized over time by both clients and vendors (Kern et al. 1999). Social ties provide a network through which coalitions can be built (Rogers-Gillmore 1987). When the tie is strong, vendors would perceive the relationship as more durable in the face of conflicts, thereby being more resistant to contract termination. Conversely, when the tie is weak, conflicts might actually aggravate the situation, resulting in distrust and tension (Labianca et al. 1998), and an eagerness to break the contract.

Amazingly, at times, the strength of social ties can even transcend and replace the focus on economics (Robinson 1996). Some research (e.g., Kern and Willcocks 2002) has actually attributed contract continuance (despite concerns over the economics) to the strong bonding between clients and vendors. Apparently, positive social relationship may alleviate some of vendors' concerns and worries, preventing them from pulling the plug. Moreover, positive social relationship takes a long time and much effort to nurture. When vendors have committed so much in cultivating the social relationship, such as daily interactions with clients' personnel and weekly meetings or monthly meetings with the steering committee (Cata and Raghavan 2003), their cumulatively vested interests would discourage them from terminating the relationship (Turnbull et al. 1996). Thus,

H7: Social relationship is negatively associated with vendors' termination intention

Contractual Relationship Inequity

Contracts provide a legally bound agreement between clients and vendors, detailing in black and white the rights, duties, and responsibilities of contracting parties, as well as specifying the goals, policies and strategies underlying the arrangement (Gottschalk and Solli-Sather 2005). In spite of the effort, contracts can never be perfect. Hence, it could be biased in favor of those who craft it (e.g., clients). In IT outsourcing, when clients create a win-lose situation at the expense of vendors, the latter might be tempted to terminate the relationship (Lee et al. 2003). After all, the feeling of being exploited by clients has strained the relationship with vendors. When contractual relationships are unequal, vendors do not feel obligated to reciprocate in cooperative acts. Without an appropriate

channel for recourse, vendors would deem it very hard to restore inequity. Eventually, they will opt for withdrawal from a relationship that is enshrouded with unfairness. Hence,

H8: Contractual relationship inequity is positively associated with vendors' terminating intention

Research Methodology

Survey Instrument and Operationalization of Constructs

We followed the steps proposed by Churchill (1979) to develop measures for our constructs. Extensive review was first conducted to delineate and specify the domain. With a clear conceptualization, we generated items to accurately reflect the dimensions of constructs. Wherever possible, we adopted past measures; otherwise, we modified or developed them based on literature review. Subsequently, we validated the items through sorting. Each item was printed on a card and shuffled into random orders. Four judges were employed to sort the cards according to given categories. A "Too Ambiguous/Not Applicable" category was included to ensure that the judges were not forced to fit any item into a particular category. Sorting results were generally good, with Cohen's Kappa scores averaging 0.74 (Cohen 1960) and the overall placement ratio of items within about 86.9% (Moore and Benbasat 1991) (see Table 1).

We controlled for 6 variables which might potentially influence the results. Vendor size (SIZ) was controlled because a bigger vendor might be able to better buffer losses from contract termination. Client size (CLI) might also be indicative of vendors' ability to effortlessly terminate contracts. Project type (TYP) (i.e., system development versus non system development) had to be controlled because the former typically involves higher complexity and uncertainty, resulting in a higher chance of failure and termination. We controlled for two time frames: project length and project age. Project length (LEN) was controlled because it would be easier for vendors to await a short-term contract to expire without terminating it, so as not to incur any penalty. Project age (AGE) was also controlled because one that had just taken off would have less opportunity to accumulate conflicts or see results; thereby reducing vendors' intention to terminate contracts. Last, the number of people involved (PEO) was indicative of its complexity and the amount of conflicts that might surface.

Data Collection

We drew our sample from the members in Singapore IT Federation (SITF), targeting project managers and executives who are cognizant about IT outsourcing projects, and have the power to influence or make decisions regarding terminating contracts. Searching the contacts from various sources, we sent out personalized letters to 334 organizations. Two weeks after the initial mailing, followed up telephone calls were conducted. When needed, a second copy of the questionnaire was mailed or faxed. To entice their participation, respondents were given a token souvenir commemorating the 2008 Olympics. In total, we received 91 replies out of the 334, giving a response rate of 27%. On average, the respondents are 34.5 years old (s.d.=7.2), with 72% of them being male.

Table 1. Operationalization of Constructs		
CODE	ITEMS	NOTE
Intention to Terminate A Contract (TER)		
TER	Vendor’s likelihood of terminating a contract	Field interviews
Reusability (REU)		
REU1	Likelihood of reusing the codes for future projects	Develop from Software Reusability concept (Krueger 1992)
REU2	Likelihood of reusing the methodology for future projects	
REU3	Likelihood of reusing the documentations for future projects	
Referencing Power (REF)		
REF1	Client’s likelihood to refer your solution to other prospects	Develop from Customer Loyalty Metrics (Reichheld 2006)
REF2	Client’s likelihood to refer your service to other prospects	
REF3	Client’s likelihood to discredit your brand name to other prospects ^R	
Resource Dependence (DEP)		
DEP1	Importance of client’s knowledge sharing for future success	Develop from Resource Dependence Theory (Pfeffer and Salancik 1978)
DEP2	Importance of client’s informational resource for future success	
DEP3	Importance of client’s physical resource for future success	
Project Revenue (REV)		
REV	Project Revenue (in S\$)	
Penalty (PEN)		
PEN	Severity of Penalty	
Late Payment (PAY)		
PAY	Extent of delayed payment (in terms of number of days)	
Social Relationship (SOC)		
SOC1	Social communication quality with the client	Develop from Social Bonds Concept (Kern and Willcocks 2002)
SOC2	Social understanding level with the client	
SOC3	Social activity involvement with the client	
Contractual Relationship Inequity (CON)		
CON1	Reciprocal inequity (e.g., the benefits your organization receives are less than what it deserves)	Adopt from Equity Perception Joshi (1989)
CON2	Procedural inequity (e.g., your organization experiences unfair procedures to arrive at the agreement)	
CON3	Distributive inequity (e.g., clients are given undeserved preferential treatment)	
Note: All scales are measured on a 7 point Likert scale unless otherwise started. R denotes reverse scales.		

Data Analysis and Results

Instrument Validation

We validated our instrument on three aspects: individual item reliability, internal consistency, and discriminant validity (Barclay et al. 1995). Results for factor loading were all above 0.7 (see Table 2), except for CON1 (i.e., 0.68). The reliability was satisfied (Barclay et al. 1995; Chin 1998). To assess discriminant validity, the loadings and cross-loading of items were examined. Loading of items on their respective latent variables should be higher than loadings of other items on these latent variables and the loading of these items on other latent variables. This requirement was met. Another criterion for discriminant validity requires that the square root of Average Variance Extracted (AVE) of any latent variable should be greater than the correlations shared between the latent variable and other latent variables (i.e., the diagonal elements should be greater than the corresponding off-diagonal ones). Again, this requirement was met (see Table 3). Finally, the third step to assess the instrument validity involves examining its measurement reliability. The Cronbach's Alpha ranged from 0.75 to 0.91, indicating high internal consistency.

Table 2. Factor Loading Result					
Rotated Component Matrix					
	1	2	3	4	5
SOC1 (CA=0.90)	0.89	-0.03	-0.19	-0.06	-0.01
SOC2	0.85	-0.20	-0.12	-0.15	0.02
SOC3	0.88	-0.11	-0.22	-0.01	0.08
DEP1 (CA=0.91)	-0.11	0.90	0.12	0.19	0.02
DEP2	-0.18	0.86	0.21	0.20	0.12
DEP3	-0.05	0.85	0.07	0.19	0.15
REU1 (CA=0.87)	-0.28	0.17	0.82	0.04	0.12
REU2	-0.19	0.06	0.82	0.24	0.18
REU3	-0.15	0.19	0.79	0.25	0.25
REF1 (CA=0.77)	-0.02	0.18	0.14	0.73	0.23
REF2	0.00	0.14	0.28	0.86	-0.01
REF3	-0.19	0.28	0.04	0.73	-0.07
CON1 (CA=0.75)	0.23	0.18	0.24	-0.12	0.68
CON2	0.05	0.09	0.15	0.00	0.88
CON3	-0.19	0.01	0.12	0.35	0.75
Eigenvalue	3.282	2.34	1.834	1.35	0.95
Variance (%)	35.22	15.60	12.23	8.97	6.32
Cum. Variance (%)	35.22	50.82	63.04	72.02	78.33

Table 3. Means, Standard Deviations, Scale Reliabilities, and Intercorrelations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.TER	3.47	1.76	-													
2.REU	4.39	1.55	**-0.63	(0.89)												
3.REF	4.53	1.09	**-0.57	**0.41	(0.83)											
4.DEP	4.29	1.46	**-0.60	**0.37	**0.45	(0.92)										
5.REV	5437	1119	-0.08	0.14	0.23	0.12	-									
6.PEN	4.54	1.57	**-0.64	**0.44	**0.43	**0.62	0.01	-								
7.PAY	19.15	6.62	0.19	-0.16	-0.10	-0.05	0.13	-0.02	-							
8.SOC	4.14	1.35	**0.49	**0.42	*-0.25	**0.27	-0.05	*-0.25	-0.02	(0.91)						
9.CON	4.31	1.13	**-0.38	**0.37	0.21	*0.23	0.01	**0.35	0.18	0.03	(0.81)					
10.SIZ	2.94	1.61	0.13	-0.15	0.04	-0.13	0.06	*-0.24	-0.11	*0.25	-0.12	-				
11.CLI	4.59	1.57	0.00	0.06	0.00	-0.09	-0.12	-0.02	0.01	-0.08	0.16	**0.26	-			
12.TYP	0.54	0.50	0.10	-0.11	-0.11	-0.03	0.16	-0.05	0.01	-0.01	-0.16	-0.13	*-0.22	-		
13.LEN	39.12	11.53	0.03	0.11	-0.06	-0.08	0.20	-0.07	0.03	-0.18	0.01	0.08	0.05	0.09	-	
14.AGE	18.23	9.42	0.04	-0.07	-0.03	-0.04	-0.08	0.01	**0.21	-0.01	0.08	-0.08	-0.01	-0.20	**0.42	-
15.PEO	33.47	13.23	0.16	-0.06	-0.04	0.00	**0.44	-0.10	0.04	*0.25	-0.05	**0.34	0.13	-0.06	0.10	-0.03

Note: *p<0.05, **p<0.01

Table 4 summarizes the regression results. The overall model explained 70.1% of the variance on vendor's intention to terminate a contract ($F=12.56$, $p<0.01$). Adding to the six controls in Model 1 ($F=0.756$, $p>0.05$), the eight antecedents help give rise to a significant relationship in Model 2 ($\Delta R^2 = 0.649$). In terms of direct effects, vendors' intention to terminate contracts showed a significant relationship with Reusability ($\beta=-0.198$, $p<0.05$), Referencing Power ($\beta=-0.177$, $p<0.05$), Resource Dependence ($\beta=-0.164$, $p<0.05$), Penalty ($\beta=-0.211$, $p<0.05$) and Late Payment ($\beta=0.154$, $p<0.05$). Contrary to prediction, Project Revenue ($\beta=-0.017$, $p>0.05$) did not exhibit a significant relationship with vendors' intention to terminate contracts.

We observed two surprising findings. Vendors' intention to terminate contracts was positively related to Social Relationship ($\beta=0.300$, $p<0.01$) and negatively associated with Contractual Relationship Inequity ($\beta=-0.205$, $p<0.01$). This implied that positive social relationship between vendors and clients actually enables vendors to effect contract termination more comfortably. Likewise, unequal contracts actually discourage vendors from contract termination. Both results are intriguing and warrant further discussion in the next section.

Regression Result

Table 4. Regression Result				
Independent Variables	Model 1		Model 2	
	β	t	β	t
Strategic				
Reusability			-0.198	*2.234
Referencing Power			-0.177	*2.260
Resource Dependence			-0.164	*1.912
Economic				
Project Revenue			-0.017	0.232
Penalty			-0.211	*2.362
Late Payment			0.154	*2.251
Relational				
Social Relationship			0.300	**3.727
Contractual Relationship Inequity			-0.205	**2.660
Controls				
Vendor Size	0.115	0.995	0.075	1.021
Client Size	-0.012	-0.109	0.054	0.762
Project Type	0.136	1.118	0.004	0.061
Project Length	-0.045	0.371	0.070	0.922
Project Age	0.094	0.771	0.025	0.340
Number of People Involved	0.139	1.243	0.046	0.618
R square	0.052		0.701	
Change in R square	-		0.649	
Adjusted R square	0.017		0.645	
F	0.756		**12.56	
Note: *p<0.05, **p<0.01				
Dependent Variable: Intention to Terminate the Contract				

Discussion

Strategic factors play a vital role in influencing vendors' intention to terminate IT outsourcing contracts. When vendors consider issues of high reusability, positive referencing power, and high resource dependence, they are deterred from abandoning the relationship. High reusability ensures that the effort and time expended currently will position vendors at a strategic vantage point subsequently. Likewise, capitalizing on clients' positive referencing

power can enhance vendors' reputation, which is acknowledged as a source of sustainable competitive advantage for organizations (Hall 1992). Finally, without the ability to obtain from elsewhere, high resource dependence dictates that vendors cherish and stay in the relationship.

Likewise, economic factors (such as high penalty and late payment) are quite predictive of vendors' intention to terminate contracts. Expectedly, no organizations would want to suffer a penalty, unless inevitable. In IT outsourcing, the amount for penalty is usually substantial (e.g., EDS paid \$135 million). Hence, vendors would be inclined to persist in delivery. Affecting the financial status and manipulations of vendors, prompt payment by clients are essential. Without which, vendors might be entrapped with financial problems and operational obstacles, resulting in their quest to terminate contracts. At times, late payment might even signal to vendors that clients are suffering from financial instability, thereby tempting vendors to break the deal before more loss are incurred should clients eventually declare bankruptcy.

Surprisingly, project revenue, is not significantly related to clients' intention to terminate contracts. Two plausible explanations are offered. First, regardless of high or low project revenue, it is still a desirable gain which vendors would not want to lose by terminating contracts. If they terminate contracts when economic returns seem low, they would even lose the token sum. According to Framing Theory (Tversky and Kahneman 1981), vendors tend to be more risk averse rather than risk seeking in the realms of gains. Thus, they are unlikely to sacrifice the anticipated revenue, however small, in exchange for unpredictability in new alternative projects. Second, the same amount of revenue could be accorded different weights by different vendors. For example, a one-million-dollar contract may mean much more to some vendors than others, depending on a variety of factors. For example, if the amount constitutes a large proportion of vendors' total sales, it might serve as a deterrent to contract termination.

Relational factors also offer some surprises. A positive social relationship actually enables vendors to initiate their termination of contracts more readily, as opposed to conventional wisdom – which suggest that positive social relationship prevents vendors from doing so. On deeper thoughts, the possibility exists. An interview with some vendors helps shed light. Often than not, vendors are worried about retaliation and repercussion. For example, with a nasty social relationship, contract termination can easily land vendors in court, because clients are antagonized and refuse to settle out of court. However, with a tender social relationship, clients might exhibit more empathy toward vendors' difficulties and dilemma, thereby accepting vendors' quest for termination more amicably. After all, a good social relationship may bring forth subsequent collaboration despite the current termination.

Unexpectedly, contract inequity is negatively associated with vendors' termination intention. In other words, unequal contracts rather than equal ones help glue vendors to the deal. It could be attributed to setting the right expectations. Upon signing up an unequal contract, vendors should be well prepared for unfair treatments. To receive less than promised or deliver more than agreed upon would be anticipated. Hence, these might not prompt vendors into contract termination. In essence, with lowered expectations by vendors, it is not hard for clients to measure up. Conversely, an equal contract may scale up vendors' expectation. Being optimistic, vendors might be more deluded when issues and problems start setting in. Oza and Hall (2005) echo in agreement: high expectations from vendors upon signing up the contract shorten the durable of relationship, whereas low expectations extend it.

Theoretical and Practical Contributions

We contribute by advancing IT outsourcing research in these few ways. First, our study highlights an important gap in extant work and seeks to fill it – more precisely, past research has implicitly assumed that only clients will terminate contracts, but has conveniently overlooked the likelihood of vendors doing so. By making salient this possibility, we accentuate the fact that IT outsourcing is at least a dyadic, if not polyadic, relationship. This unravels a plethora of important issues that might warrant further investigation from the vendors' perspective, if not a dyadic treatment. For example, contract terminations by clients are often attributed to vendors' opportunism, a phenomenon underlying the tenets of Agency Theory (Eisenhardt 1989). Seldom discussed, but just as relevant and real, is clients' opportunistic behavior. A re-examination of assumptions in extant work would be insightful.

Second, we provide a more holistic view to understanding vendors' intention to terminate contracts, beyond the obvious notion of economic reasons. We profess the integration of relational and strategic theories to economic theories, so as to better capture both the soft aspect (relational and strategic) and the hard aspect (economic) of IT outsourcing. Resultantly, a preliminary framework that adopts the Strategic-Economic-Relational view is conceived, to be leveraged on by future researchers. By doing so, we manage to not only examine unilateral variables (such as revenue and penalty), but also allows investigation of bilateral variables (such as social relationship). Once again,

this brings salient the dyadic or polyadic relationship underlying IT outsourcing. In essence, we add to the works of elites who study contract termination only through an economic lens (e.g. Ngwenyama and Bryson 1999).

Third, we delineate the subtle but important difference between outsourcing success and contract continuance. Outsourcing success alone, at least from vendors' perspective, might not ensure contract continuance. Without acknowledging this often confounded concept, clients might be unduly thrown into bewilderment and the urgent need to find alternative vendors or backsource when vendors suddenly choose termination over continuance, despite a successful delivery. Comparing findings from our study with those that explore clients' contract termination, we discover that the determinants for contract termination differ remarkably. In a nutshell, for clients, it predominantly revolves around low service quality (Chalos and Sung 1998), loss of core competence (Whitten and Leidner 2006), or an underestimation of cost involved (Falaleeva and Saunders 2006). But for vendors, our study unravels strategic reasons like low reusability or negative referencing power, economic reasons like late payment (rather than low project revenue), and relational reasons.

Fourth, we offer a paradoxical view on relational dimensions (such as social relationship and contractual relationship inequity). On one hand, most articles (e.g., Davis 2004; Lee and Kim 1999) have espoused the importance of a positive social relationship and a fair contract. They may help in governing the success (if not necessarily the continuance) of IT outsourcing. Hence, clients and vendors alike are both working hard to strengthen their bonds (McLaughlin and Peppard 2006). Prior to signing the contract, they will also engage legal consultants to pore over the contracts and scrutinize every seemingly equivocal clause. On the other hand, our study purports that these same factors (i.e., positive social relationship and equal contracts) help pave the way for early contract termination, at least by vendors! Our research, hence, illustrates the irony and complexity plaguing real life issues.

In addition to theoretical contributions, our study has important implications for major stakeholders (such as clients, vendors and even legal professionals). Vendors could use our findings to refrain themselves from culminating in early contract termination. As postulated by Contingency Theory (Ginzberg and Venkatraman 1985), no project is optimal for all organizations and the appropriateness of a project depends on the competitive setting the organizations are in. Good IT outsourcing projects are the ones that would render vendors strategic advantage in their environmental and organizational conditions. Clients could also count on our findings to effectively devise mechanisms to reduce, if not entirely curb, vendors' termination intention. While clients have been vigilantly safeguarding vendors' opportunism, they might have overlooked the needs of vendors (Kern and Willcocks 2002), which could result in the case of project success but contract termination. Given that some vendors might be more established than clients and not at the mercy of clients (Bin et al. 2008), understanding vendors has become increasingly important. This study has helped expose some concerns bothering vendors. Legal professionals and consultants would want to be cognizant about our findings and advise clients and vendors accordingly too.

Limitations and Future Directions

As the study was conducted in Singapore, some might be concerned with the generalizability of our findings. However, given that increasingly, more clients are opting for IT outsourcing to Asia (such as India and China), our findings might reflect the aura of global IT outsourcing, from the perspective of vendors.

Our study did not examine the multiple projects scenario, whereby a vendor signs up multiple projects with a single client (Gallivan and Oh 1999). Increasingly, there is an emergent trend of clients hiring the same vendor for multiple projects (Patton 2005). We speculate that in this situation, the decision for vendors to terminate one project may be influenced by the precarious fate of other projects with the same client. However, it could also be the case that other projects help make up for what is non-delivered in this to be terminated project. Given the varied possibilities, it calls for an interesting future research.

Another fruitful venue for research is the multi-vendor relationship. Having examined a single vendor relationship, we recognize the presence of multi-vendor arrangements. Indeed, a recent survey reveals that 42% of clients use three or more outsourcing vendors, while 36% use fewer than three and only 22% are sticking with one (Patton 2005). Again, it invites us to wonder whether other vendors would be influential in swaying the decisions of a vendor.

To conclude, we hope that more research on IT outsourcing which embraces views from both clients and vendors would be embarked, so as to enhance the success rate of IT outsourcing and if possible, contract continuation.

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